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Department of Agriculture
THE COTTON SITUATION

Summary

Cotton prices have fluctuated considerably during the past few weeks with a tendency to decline. Major influences, reports the Bureau of Agricultural Economics, include the political crisis in Europe, general reduction in mill activity in the principal foreign manufacturing countries and smaller sales than production of cotton textiles by manufacturers in this country.

Sales of cotton textiles by domestic manufacturers in the first 6 weeks of the current cotton-marketing season apparently have been below production despite increased sales in the second and third weeks of September. Mill activity and cotton consumption, however, when adjusted for seasonal variation, have increased since early July and have averaged higher than for nearly a year. While this improvement is at least partly due to heavy sales in June, it is expected that sales during the months immediately ahead will be sufficient to maintain cotton mill consumption considerably above the average for the past 12 months.

The general cotton textile situation in foreign countries has become more unsatisfactory during the past month. In a number of important cotton manufacturing countries mills continued to sell a smaller volume of cotton cloth and yarn than was produced, despite further curtailment in activity. The statistical position of the cotton textile industry in most countries and prospects for a continued lower level of general business conditions make the outlook with respect to cotton consumption in foreign countries less favorable than that for the United States.

The situation with respect to supplies of raw cotton appears to have changed very little during the past month. While the September estimate of the United States crop was 163,000 bales (of 478 pounds net) less than that of August, this is equal to only a fraction of 1 percent of the approximately 25-million-bale world supply of American cotton or of the probable world supply of all cotton of more than 50 million bales.

Information as to the probable size of the total 1938-39 foreign crop is still limited but the indications are that it will be somewhat smaller than the record production of last season. In view of the substantial increase in carry-over of foreign cotton on August 1, however, the world supply of this cotton may again reach a new high and exceed the supply of American cotton.

PRICES

Since the beginning of the current season domestic cotton prices have shown a net decline of approximately one-half cent per pound. During the first few days of August, Middling 7/8 inch cotton in the 10 designated markets averaged 8.57 cents per pound but by September 24 averaged approximately 8 cents per pound compared with 9 cents in early July. At the time of the announcement of the 1938 Cotton Loan Program, on August 27, Middling 7/8 inch cotton in the ten markets averaged slightly higher than the loan value of 8.3 cents which was established for this particular quality. Since that time, the European political crisis appears to have accounted for a considerable portion of the variations in cotton prices and perhaps at least a part of the net decline. Even without this development, however, sales of cotton textiles and cotton mill activity in many foreign countries probably would have continued unfavorable.

The decline of approximately 1 cent per pound in the United States price of American cotton since the early part of July has been accompanied by a somewhat similar decline in Liverpool. The price of American cotton in the latter market has been considerably weaker than the price of Egyptian Uppers so that American cotton is somewhat more favorably priced from the standpoint of encouraging increased consumption of American than in June or July. Current prices of American cotton in Liverpool, however, are slightly higher in relation to prices of Indian, Egyptian, and Brazilian than on the average in the 1937-38 season.

EXPORTS

The 201,000 running bales of American cotton exported in August represented a 9 percent decline in comparison with exports during August 1937, according to data released by the Bureau of the Census. Trade reports indicate that during the first half of September exports made a less favorable showing in comparison with a year earlier than in August, with the result that for the first month and a half of the season total exports were approximately one-fifth less than in the corresponding period last season.

In view of the unfavorable outlook with respect to cotton consumption in Europe and the Orient during the months immediately ahead, it seems quite likely that exports may continue well below those of a year earlier for at least a substantial part of the current season. This seems particularly likely in view of the fact that in general, cotton consumption and mill activity in foreign countries were at comparatively high levels during the early part of the 1937-38 season. Should cotton consumption in foreign countries improve during the first half of 1939, the low level of consumption and exports during the corresponding months of 1938 would make the comparison more favorable for the latter part of the present season.

DEMAND AND CONSUMPTION

UNITED STATES: Consumption in 1938-39 expected to show increase

Total domestic cotton consumption in 1937-38 amounted to 5,760,000 running bales. This was 28 percent less than consumption in the previous season and 7 percent less than the average for the 10 years ended 1936-37. Although consumer buying of cotton textiles decreased considerably in the 1937-38 season, the decrease was not as great as the decline in manufacturers' sales. Consequently, stocks of finished goods in channels of distribution declined materially and are now well below a year ago.

Manufacturers' sales of cotton textiles during the first month and a half of the current season have been below output even though there appears to have been considerable improvement in sales during the 2 weeks ended September 24. However, with the comparatively low level of stocks in distributors' hands and with further revival in industrial activity and payrolls expected, manufacturers' sales of cotton textiles during 1938-39 seem likely to materially exceed those of the previous season. This situation and the fact that mill activity so far this season has averaged considerably higher than during the preceding season are expected to result in a considerably larger consumption during the current season than in 1937-38.

During August the index of cotton consumption, adjusted for seasonal variation, averaged 115 compared with an average of 94 for the 1937-38 season and the low point of the past season of 77 reached in April. Trade reports indicate that activity during the first 3 weeks of September averaged considerably below the average for August but materially above early July. During the first 2 months of the past season, domestic cotton consumption was still at unusually high levels,

with the index of consumption for August and September 1937 averaging 129 and 121, respectively. Along with the marked recession in general business activity during the latter part of 1937 and first part of 1938, a sharp decline occurred in cotton consumption until April. During the current season the trend of business activity is expected to be upward.

EUROPE: 1/ Cotton consumption in past season reduced, outlook unfavorable

The cotton year, 1937-38, in the European industry was influenced chiefly by the spreading economic recession in the world and the growing political unrest with their inevitable repercussions on world trade. In many of the countries which derive a substantial part of their buying power from the exportation of primary commodities, importers were under the stimulus of the rapid rise in the prices of their own commodities as well as of cotton goods and in early 1937 had contracted for cotton goods in excess of current requirements. The subsequent fall in prices of cotton goods found several of these countries overloaded with high-priced stocks at the same time that price declines in their own commodities began to curtail consumer purchasing power. The war in China with its serious curtailment of consumption in the Far East added to these difficulties.

In addition, the statistical position for raw cotton by the end of 1937 had become sufficiently clear to indicate that an enormous carry-over would have to be brought forward into the new season and that, with war in the Orient continuing and general economic prospects by that time having become rather uncertain, world consumption at least during the first half of the season could be of little avail to alleviate the pressure of the 1938-39 supplies. Hence, cautious buying throughout the cotton textile field was fairly general throughout the last half of the 1937-38 season; and a tendency to work off stocks of goods, which continued to accumulate well into the spring of 1938, was later evident over most of Europe.

The unfavorable turn in the European cotton textile industry, which occurred in the latter part of the calendar year 1937 was largely a result of extraneous developments which entailed a severe curtailment of cotton textile exports. Domestic demand held up fairly well until later in the season. This situation naturally affected first and foremost the countries heavily dependent upon export outlets. Thus the 1937-38 decline in European mill consumption was materially affected by the reduction in the United Kingdom. It was, also adversely affected by the decline in export orders which in the spring reversed the measurable recovery of mill activity in Italy and brought a new crisis upon the cotton textile industry of Czechoslovakia. A drop in overseas and colonial export business has been the decisive factor in the lull in Belgium and the Netherlands and Germany - otherwise outstanding in the maintenance of high cotton mill activity and, contrary to the general trend, consuming more cotton than in the preceding season - has likewise experienced a substantial decline in cotton textile exports.

1/ Based largely on a report prepared in the Bureau's London, England, office dated September 7.

While economic developments within the important cotton consuming countries of Europe are not very likely to make for drastic further curtailment in European cotton mill output in 1938-39, some further restriction incident to reduced home buying power may occur. Since the falling-off of domestic textile consumer demand in Europe did not get under way until the latter part of 1937 or early 1938, demand during the 1938-39 season should average considerably below the preceding season if general economic conditions continue at about present levels.

The tendencies that have been at work in reducing cotton textile exports by European manufacturing centers in 1937-38 are not likely to be greatly improved in 1938-39. It is possible that some improvement may occur during the latter part of the season, provided there is no general European war, but world conditions are not likely to be conducive to much of an expansion in international trade. Even if a genuine revival should get under way in the United States which would support raw material prices and buying power in certain cotton textile importing countries, it would not necessarily immediately result in higher import buying by these countries. By maintaining their imports during the past 12 months on relatively high levels despite a sharp decline in their exports, these countries have been using up liquid balances accumulated abroad in 1936 and the first half of 1937, and are, therefore, not likely to respond immediately, through higher import buying, to any possible upturn of their exports. The tendency rather is now to tighten up on the expenditure of foreign exchange. On the other hand, it should be pointed out that the export situation has been benefited by the partial clearing of surplus stocks of high-priced goods with which trade channels in the past year have been clogged. And the present level of cotton textile prices, taken by itself, is favorable to consumption.

Great Britain

The 1938-39 season in Great Britain has opened with prospects for consumption and imports of American cotton less favorable than those of a year ago. Barring a definite reversal of current trends it is hardly to be hoped that mill takings of American can exceed, if they can equal, the 1.2 million bales of 1937-38. The substantial backlogs of orders with which many mills entered the last season, and which helps to sustain operations at satisfactory levels through the first 6 months, have been quite generally exhausted. Meanwhile, demand has declined severely. While some seasonal improvement is to be expected in the autumn months, mills are with difficulty selling enough yarn and goods currently to maintain operations in the industry as a whole at more than about 50 to 60 percent of capacity.

Weakness in the textile demand situation first appeared in the export markets. Current indications point to a decline of total exports from Great Britain in the calendar year 1938, as compared with 1937, of about 27 percent in the case of piece goods and 25 percent in yarns, a total decline equivalent to about 320 thousand bales of cotton. Although fairly general, the falling off was especially marked on the continent of Europe and, with the exception of Australia, in countries which derive a substantial part of their buying

power from the export of primary commodities. In many of these countries, under stimulus of the rapid rise in the prices of their own products as well as of cotton goods early in 1937, importers had contracted for cotton goods in excess of current requirements and priced on the basis of cotton values at that time. The subsequent fall in the prices of cotton goods, corresponding to the decline in raw cotton, found several of these countries overloaded with high-priced goods at the same time that price declines in their own commodities sharply curtailed consumer purchasing power. Thus, for example, in British West Africa, which in 1937 ranked as Britain's second largest foreign customer, import buying almost disappeared in 1938 with the sharp decline in cocoa prices. Similar situations developed in Malaya and the Netherlands East Indies with the alternate rise and fall of rubber prices in Argentina, and in some of the Dominions. In India, still the largest overseas market for British textiles, increasing domestic production has operated to continue the long downtrend of British exports to that country.

Retail trade in the home market has held up well in spite of a moderate decline in employment and of a general slackening of business activity, as reflected in the decline in the Board of Trade index of industrial activity from 136.6 in the final quarter of 1937 to 122.1 in the April-June quarter of 1938. Nevertheless, there seems to be some concern that if the present downtrend of business continues, a growing awareness of the recession in the popular mind as well as a curtailment of incomes may be reflected later in a definite contraction of consumer buying. Movement of stock figures supports the impression that retailers are disposed for the present to let their inventories run off.

Mill takings of cotton of all kinds in 1937-38 fell off by about a half million 500-pound bales from the 3.2 million equivalent bales in 1936-37, but takings of American cotton of 1.2 million bales were as great as in 1936-37. This relatively good consumption of American cotton can be explained partly by more favorable prices and supplies of American relative to other growths, and by the fact that in the first half of the season when normally American cotton enjoys its greatest consumption, mill activity was well sustained and many mills were willing to buy their requirements for some months forward.

Germany

The season 1937-38 for the German cotton textile industry was characterized by only slight expansion of operations, compared with 1936-37, despite higher consumer demand and considerably higher imports and domestic production of cotton spinning materials (including substitutes). This situation, on the one hand, gave rise to shortages of cotton textile goods in the consumer's market over most of the season, somewhat intensified by higher exports of fabrics; on the other hand, it resulted in an accumulation of raw material reserves, following a season of considerable reduction in such stocks. Most of the increase in stocks was directed to mills, while port stocks showed only a moderate rise. The total increase in stocks of cotton spinning materials from the first of the 1937-38 season to the end may be estimated to have amounted to something between 250,000 and 300,000 bales of 478 pounds net, raising stocks from roughly 250,000 bales to from 500,000 to 550,000 bales.

German exports of cotton fabrics in 1937-38 were roughly 25 percent above 1936-37 - an increase which contributed somewhat to the tension in domestic consumer supplies. Since April this year, exports of fabrics have fallen below those a year ago, reflecting the beginnings of the earlier decline in export business. Cotton yarn imports and exports in 1937-38 were below those of the preceding season, while imports of cotton fabrics were about unchanged.

Admixture and utilization of cell-wool in cotton spinning mills continued high and rose to the highest level ever attained. About one-fourth of the raw material consumed by German cotton spinning mills in 1937-38 consisted of cell-wool. The share of raw cotton in total German cotton spinning mill consumption of raw materials for 1937-38 may be estimated at about 45 percent, compared with about 80 percent in 1933-34. ^{2/} This is a measure of the replacement of raw cotton by substitute materials that has taken place during the past four seasons. An indication of the development of total supplies of raw cotton and substitute materials - not considering movements of stocks - is given in the following table:

Germany: Supplies of raw cotton and substitute materials ^{1/}

Item	: 1933-34	: 1934-35	: 1935-36	: 1936-37	: 1937-38
	: <u>Mil.lb.</u>	: <u>Mil.lb.</u>	: <u>Mil.lb.</u>	: <u>Mil.lb.</u>	: <u>2/</u>
Raw cotton:					
Net imports	768.2	459.5	580.4	470.1	573.1
Cotton waste, linters, re-					
claimed cotton, etc.:					
Net imports	99.9	198.1	165.4	203.0	238.1
Reclaimed cotton:					
Domestic production ^{3/} ..	44.1	52.9	59.5	70.5	77.2
Cell-wool:					
Domestic production ^{4/} ..	8.8	17.6	44.1	141.1	235.9
Total of above	921.0	728.1	849.4	884.7	1,124.3

^{1/} Revised figures.

^{2/} Preliminary.

^{3/} Estimates, based on "Warum Aussenhandel", by Dr. R. Eicke, 4th edition, Berlin, 1938.

^{4/} Estimates, based on Statistische Uebersichten, Dresdner Bank, Berlin.
Share used in cotton spinning mills only (80 percent of total production).

Of Germany's total imports of raw cotton in 1937-38, which were about 25 percent higher than in 1936-37, roughly 25 percent were American as compared with about 23½ percent in 1936-37. The share of Egyptian remained about the same, at around 16 percent of the total. Indian fell from 13 to 8.4 percent, and the share of Brazilian rose to the unprecedented high of almost 33 percent of total imports, compared with 21.6 percent in 1936-37, roughly 18 percent

^{2/} In calculating these percentages, the movement of stocks in the two seasons has been roughly estimated.

in 1935-36 and about 20 percent in 1934-35. In absolute figures, cotton imports from Brazil in 1937-38 also reached a record high, by far exceeding any previous season. As a matter of fact, with an importation of about 400,000 bales of 478 pounds of Brazilian cotton, Germany took more than the annual quantity agreed upon in the trade agreements between the two countries which provide only for annual German takings of 236,000 bales. This may be one of the reasons for the action taken by the Brazilian authorities in June this year ruling that cotton exports to Germany, for the time being, may be made only against payment in foreign exchange. So far this regulation has not been withdrawn, even though for other products which had been affected by a similar ruling, exportation to Germany within the customary ASKI payment system is now again permitted.

Another development in the German import data is the continued decline in cotton imports from Turkey which were 83,000 bales in 1934-35, 74,000 bales in 1935-36, 42,000 bales in 1936-37, and only about 14,000 bales in 1937-38. This decline in the face of considerably increased Turkish production, partly reflects the growing domestic utilization of the cotton crop by the expanding Turkish textile industry. A relatively small quantity (10,000 bales) of Russian cotton reappeared on the German market in 1937-38, following two seasons of no imports.

Prospects for the German cotton industry in 1938-39 are extremely uncertain. Much will depend on the arbitrary decision of the authorities, and the economic and political course which they will take is unknown. There is not much likelihood, however, that German consumption capacity will increase in the near future. It is probable that Germany, having refilled depleted reserves in 1937-38, will take less cotton in 1938-39 than she took in 1937-38, particularly since further substitution of cell-wool will probably occur. Roughly 500,000 bales of cell-wool (or 80 percent of a total production of 620,000 bales) have been used in cotton spinning during 1937-38; and in the coming season this figure, according to present plans, may be raised to 700,000 bales. Considering all factors involved, it is not unlikely that raw cotton imports in the new season may show a substantial decline.

France

From a consideration of trade reports, import data and port stocks, it would appear that the French industry in 1937-38 consumed somewhat less cotton than in 1936-37. The figures on yarn production per spindle, however, suggest a somewhat better situation. In any case, the season apparently has been unsatisfactory. While the first half of 1937-38 - as in most other countries - was still fairly favorable, the second half showed gradual deterioration, with short-time and stoppage of equipment increasing. As to the financial situation, the industry has complained about the continued wage increases. Devaluation in June and September 1937 somewhat stimulated exports of yarns and fabrics to the French possessions as well as foreign markets. The further devaluation in May 1938 probably also supported exports, at least relatively.

Prospects for 1938-39 are rather uncertain. There has as yet been no decided change for the better in France's general economic outlook, and as a result of the economic recession in other countries the outlook for

exports is not encouraging. The restriction of cotton mill activity which occurred in recent months is likely to extend into 1938-39. And, unless the economic revival appears soon, further reduction is possible.

Belgium

Following fairly favorable conditions in sales and activity into October 1937, the situation in the Belgian cotton textile industry gradually deteriorated. In April-June 1938, yarn production per spindle installed was 21 percent below the same period last year. As a result, total mill consumption of raw cotton in the season 1937-38 fell short of consumption in 1936-37.

Prospects for 1938-39 are for continuance of less satisfactory conditions. Since the Belgian cotton textile industry is exporting more than 50 percent of its production, developments will be largely determined by outside factors.

Holland

The Netherlands in 1937-38 seem to have consumed about the same amount of cotton as during 1936-37, which had been a very favorable season. Toward the latter part of the past season, however, the Dutch spinner and weaver organization reported a lull in business. In the spinning branch, margins on the whole were decreasing but activity has held up better than in many countries. In the weaving section, home and export demand for some time has been much smaller than last year and the outlook is for a less satisfactory season in 1938-39.

Italy

While activity in the Italian cotton textile mills was much above a year earlier until February or March, there has been a rather marked decline since then and in the early part of the current season both spinning and weaving activity was below the level of last year. A severe reduction in export demand since the end of last year as well as an unsatisfactory state of domestic business accounted for the recession. Nevertheless, as a result of the much improved activity in the first half of the season, total raw cotton consumption by Italian mills in 1937-38 was above 1936-37. The great expansion of Italian textile exports in 1937 was instrumental in raising mill activity in that year to rather high levels. The outlook for the new season is not encouraging, though there are indications that manufacturers expect some improvement in the fall or early winter. 3/ An improvement in cotton textile exports would depend somewhat on expansion of demand from the Near East and Argentina, where Italy has become an important competitor of Great Britain.

Production of cut fiber in Italy during 1937-38 may be estimated at around 400,000 bales, compared with 280,000 bales in 1936-37 and roughly 180,000 in 1935-36. Consumption by Italian cotton spinning mills of cotton waste and substitute fibers (such as staple fiber, cottonized hemp, etc.) in 1934 amounted to about 9 percent of their consumption of pure raw cotton,

3/ According to information received from the American Consulate General at Milan.

in 1935 it was about 16 percent, in 1936 it rose to 33 percent and by 1937 reached 46 percent. In the first several months of 1938 (January-May) this percentage has declined slightly to 42 percent.

Czechoslovakia

The Czechoslovakian cotton textile industry consumed considerably less cotton in 1937-38 than in 1936-37. Mill activity since November has been below levels of a year earlier. Unsatisfactory domestic as well as export sales account for the reduction, though actual exports of yarns and fabrics on old orders kept up fairly well.

The outlook for 1938-39 is not encouraging. The political tension in central Europe is not conducive to higher home consumption, and export prospects are equally uncertain. The loss in the Austrian market may partly be offset by higher exports to the Danubian countries which have harvested an excellent grain crop this year. Since the restrictions in cotton mill activity during 1937-38 were already severe, there should not be much further curtailment in 1938-39.

Poland

In 1937-38 the Polish cotton industry was in a position to expand mill activity and raw cotton consumption greatly, as a result of better home and export demand. There have been declines since last spring, however, and with economic and export prospects somewhat less satisfactory for 1938-39, cotton consumption in the new season is not expected to reach the favorable level of 1937-38. A satisfactory grain crop outlook, as compared with last year's poor harvest, is a favorable factor in the situation. As a result of general stringency in the balance of payments, with trade having shown a large import deficit for some time past, the Government recently restricted import permits for several products including raw cotton.

ORIENT: Cotton consumption lower in Japan but higher in China

Total forwardings of raw cotton to Japanese mills (which in recent months have not been greatly different from mill consumption) in August amounted to only 216,000 bales compared with 217,000 bales in July, 256,000 in May, and 331,000 bales in August last year. The sharp decline in Japanese cotton consumption was the result of reduced exports of cotton textiles from Japan, shortage of foreign exchange with which to import raw cotton and the resulting Government decrees requiring increased substitution of synthetic fibers for raw cotton.

Reports indicate that during July and early August a marked increase occurred in inquiries for cotton textiles from export markets or from exporters, but that export inquiries dropped off sharply during the latter part of August and in early September. It is also reported that there had been a tendency on the part of foreign buyers to force cotton textile prices to abnormally low levels as a result of the realization that under recent Government regulations exports are mandatory if Japanese mills are to continue to receive raw cotton.

A recent report from Agricultural Commissioner O. L. Dawson at Shanghai indicates that mill consumption in China, including Manchuria, in August probably amounted to about 135,000 bales. This represents a substantial increase over the estimated consumption of about 120,000 bales in June and July and is perhaps two or three times as great as the unusually low consumption during the early part of last season. Because of the active demand and the limited output of yarn, prices of cotton yarn in China, have, for sometime, been especially high and despite a moderate advance in cotton prices, spinners' margins are now at phenomenally high levels. Piece goods production has increased but not in relation to the increase in sales, consequently prices have advanced materially. It is generally expected that cotton consumption will continue at levels substantially above the average for the 1937-38 season but greatly below the record levels of the preceding season.

SUPPLY

AMERICAN COTTON: Supply increases but is still below peak

With the world carry-over of American cotton on August 1, 1938, about 7.2 million bales larger than a year earlier, it appears from the present (September) estimate of United States production that the world supply of American cotton for the current season will be a little larger than that of 1937-38. The indicated supply, now estimated at 25.1 million running bales, is 2 percent larger than in 1937-38, the third largest in history, and 16 percent larger than the 10-year (1927-36) average but it is about 1 million bales smaller than the peak supply of 1932-33. While the September estimate of the domestic crop was 163,000 bales (of 478 pounds net, and a smaller number of running bales) less than that of August, this is equivalent to only a fraction of 1 percent of the indicated supply of American cotton.

A factor of considerable importance in connection with the present season's supply of American cotton is the quantity of cotton upon which the Government has advanced loans, the maturity date for which is July 31, 1939. At the beginning of the current season, stocks of such cotton amounted to approximately 7 million bales. Furthermore, it is quite possible that, under the 1938 loan program, stocks of such cotton may increase still further. Even with no further increase, however, the deduction of these stocks from the present estimate of supply for the season gives an indicated supply of so-called free cotton of 18.1 million bales which is a little larger than the supply of such cotton during the preceding season but much smaller than in the early 1930's.

FOREIGN COTTON: Carry-over up but production expected to be down

With the world carry-over of foreign cotton on August 1, 1938, which is estimated at 9.8 million bales, approximately 2.7 million bales larger than a year earlier, a substantial reduction in the 1938-39 foreign crop is necessary if the supply of this cotton is not to show an increase over the record supply of 1937-38. Reports thus far received with respect to the 1938-39 foreign crop indicate a probable reduction in the current season's marketing, but sufficient information is not now available to determine the extent of the reduction. It seems quite likely, however, that at least a large part of the increase in the carry-over of this cotton at the beginning of the season will be offset by a smaller crop than in 1937-38.

